

## Message Text

UNCLASSIFIED

PAGE 01 ROME 11565 121058Z

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INFO AMEMBASSY BONN

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UNCLAS ROME 11565

E.O. 11652 N/A

TAGS: EGEN, ELAB, PINT, IT

SUBJ: LABOR AND BUSINESS CONDITIONS UNDERLYING LA MALFA PLAN

REF: ROME 11528

1. BEGIN SUMMARY: DETAILS OF THE LONG AWAITED LA MALFA PLAN FOR REVIVING THE ITALIAN ECONOMY WERE ANNOUNCED ON AUGUST 8 (SEE REFTEL). THE PLAN, WHICH INVOLVES THE EXPENDITURE OF 3500-4000 BILLION LIRE (ONE DOLLAR EQUALS 665 LIRE) BY THE GOI OVER A TWO YEAR PERIOD, HAS ALREADY BEEN PRESENTED TO THE APPROPRIATE CHAMBER OF DEPUTIES COMMITTEE AND HAS THE QUALIFIED SUPPORT OF THE CONFEDERATION OF ITALIAN INDUSTRY (CONFINDUSTRIA) AND THE THREE MAJOR LABOR CONFEDERATIONS. THE PLAN IS NOT RPT NOT A PROGRAM FOR DEVELOPMENT BUT RATHER A SERIES OF EMERGENCY MEASURES DESIGNED TO AVOID LARGE-SCALE UNEMPLOYMENT. THE MOST SERIOUS THREATS TO ITS SUCCESS ARE BUREAUCRATIC INEPTITUDE AND THE POSSIBILITY OF A GOVERNMENT CRISIS IN THE FALL.

UNCLASSIFIED

UNCLASSIFIED

PAGE 02 ROME 11565 121058Z

END SUMMARY.

2. WHILE CHRISTIAN DEMOCRATIC POLITICIANS WERE SORTING OUT THEIR DIFFERENCES ON HOW TO COPE WITH THE IMPLICATIONS OF THE COMMUNIST GAINS IN THE JUNE 15-16 REGIONAL AND ADMINISTRATIVE ELECTIONS, DEPUTY PRIME MINISTER UGO LA MALFA (PRI) AND OFFICIALS OF THE MINISTRIES OF TREASURY AND BUDGET AND THE BANK OF ITALY DEVELOPED THE SUBJECT PLAN TO COPE WITH THE SERIOUS ECONOMIC CRISIS FACING ITALY. THE PLAN IS LARGELY IN RESPONSE TO PRESSURE EXERTED BY THE LABOR FEDERATION CGIL-CISL-UIL (CCU) DURING A SERIES OF SUMMIT MEETINGS BETWEEN UNION AND GOI LEADERS (SEE ROME 9751, INTER ALIA).

3. THE LA MALFA PLAN IS BASED ON GOVERNMENT AND INDUSTRY PROJECTIONS WHICH INDICATE THAT CURRENT INTERNAL AND EXTERNAL DEMAND IS SUFFICIENT TO KEEP ITALIAN INDUSTRY ACTIVE FOR ONLY ABOUT FOUR MONTHS. THE BANK OF ITALY, INCLUDING FORMER GOVERNOR GUIDO CARLI, IS ALSO PREOCCUPIED WITH TRENDS IN ITALY'S BALANCE OF PAYMENTS.

4. IN CONVERSATIONS WITH UNION LEADERS, LA MALFA HAS INDICATED HE IS CONVINCED ITALY'S CURRENT ECONOMIC CRISIS IS DUE TO FUNDAMENTAL STRUCTURAL INCONSISTENCIES AND THE WORLD WIDE RECESSION. THE ARCHITECTS OF THE LA MALFA PLAN FEAR THAT A HIGH RATE OF INFLATION WILL CONTINUE IN THE MAJOR INDUSTRIAL COUNTRIES. THEY ALSO NOTE THAT THE SEVEN MOST IMPORTANT INDUSTRIALIZED COUNTRIES ALL REGISTERED DECLINES IN PRODUCTION LAST YEAR. GOI PLANNERS HAVE NOW PARTLY DISCOUNTED ANY INCREASE IN EXTERNAL DEMAND, ESPECIALLY IN THE UNITED STATES, GERMANY, AND JAPAN, AS A STIMULUS TO ITALIAN PRODUCTION.

5. RELATIONS BETWEEN EMPLOYERS AND UNIONS, THE COST OF LABOR, INCLUDING NON-SALARY BENEFITS, AND RELATIVELY HIGH CREDIT COSTS ARE AMONG THE FACTORS WHICH DECREASE THE COMPETITIVENESS OF ITALIAN PRODUCTS. ACCORDING TO THE NATIONAL INSTITUTE ECONOMIC REVIEW (UK), UNIT SALARY COSTS IN ITALY INCREASED FROM A BASE OF 100 IN 1969 TO 172 IN 1974 AS COMPARED WITH A CHANGE FROM 100 TO 115 IN THE UNITED STATES; 157 IN JAPAN; 153 IN BRITAIN; 126 IN GERMANY; AND 133 IN FRANCE. ACCORDING TO DATA PUBLISHED BY THE CITIBANK, AVERAGE HOURLY UNIT COSTS FOR INDUSTRIAL LABOR IN ITALY IN 1974 WERE DLR 4.35 COMPARED WITH DLR 6.53 IN THE UNCLASSIFIED

UNCLASSIFIED

PAGE 03 ROME 11565 121058Z

UNITED STATES; DLR 3.96 IN FRANCE; DLR 5.25 IN GERMANY; DLR 3.01 IN JAPAN AND DLR 2.77 IN GREAT BRITAIN.

6. WHILE INCREASED LABOR COSTS HAVE AFFECTED THE INTERNATIONAL COMPETITIVENESS OF ITALIAN PRODUCTS, THEY HAVE BEEN CONSISTENT WITH OTHER INFLATIONARY TRENDS IN THE ITALIAN COST STRUCTURE. IN FACT A SURVEY BY THE ITALIAN MEDIO BANCA OF 703 MANUFACTURING COMPANIES INDICATES THAT THE AVERAGE PERCENTAGE SHARE OF LABOR

IN THE COST OF MANUFACTURED GOODS, WAS RELATIVELY UNCHANGED BETWEEN 1968 (22.7 PERCENT) AND 1974 (22.8 PERCENT). PROFIT MARGINS ON THE OTHER HAND DECREASED FROM 7.4 TO 4.5 PERCENT. SIMILARLY CREDIT COSTS INCREASED ON THE AVERAGE FROM 3.8 TO 5.2 PERCENT. THERE ARE SIGNIFICANT DIFFERENCES BETWEEN VARIOUS SECTORS. THUS, WHILE LABOR COSTS DECREASED IN THE CHEMICAL FIELD FROM 21.6 TO 15.8 PERCENT. THEY INCREASED IN TEXTILES FROM 26.4 TO 33.5 PERCENT. THEY WERE RELATIVELY UNCHANGED IN THE AUTOMOBILE SECTOR, FROM 35.1 TO 37.9 PERCENT AND IN STEEL, FROM 22.3 TO 21.1 PERCENT. OTHER RELATIVELY HARD HIT INDUSTRIES IN TERMS OF INCREASED LABOR COSTS ARE DOMESTIC APPLIANCES, UP FROM 22.4 TO 28.2 PERCENT, CLOTHING UP FROM 3.3 TO 34.6 PERCENT, NAVAL SHIP YARDS, UP FROM 34.4 TO 46.3 PERCENT AND PHARMECEUTICALS, UP FROM 25.3 TO 35.5 PERCENT OF THE TOTAL COST PER UNIT.

7. AWARENESS OF THESE NEW ECONOMIC REALITIES IN THE MID-SEVENTIES, WHICH CONTRAST SO SHARPLY WITH THE SIXTIES, SEEMS TO HAVE INDUCED A MOOD OF REALISM AT LEAST AT THE NATIONAL LEVEL IN THE THREE MAJOR ITALIAN LABOR CONFEDERATIONS. THE COMMUNIST-DOMINATED CGIL, FOR EXAMPLE, HAS SUGGESTED THAT DURING THE FORTHCOMING CONTRACT NEGOTIATIONS, DIRECTLY INVOLVING FOUR MILLION WORKERS, OR 20 PERCENT OF THE ITALIAN LABOR FORCE, THE UNIONS MODERATE DEMANDS FOR WAGE IMPROVEMENTS AND CONCENTRATE RATHER ON IMPROVING WORK CONDITIONS AND PRODUCTIVITY. NATIONAL UNION LEADERS ARE SEEKING TO CUSHION THE EFFECTS OF INFLATION ON WAGE PACKETS BY PUTTING PRESSURE ON GOVERNMENT TO REDISTRIBUTE THE BURDEN FOR SOCIAL SERVICES SUCH AS TRANSPORTATION, ELECTRICITY, TELEPHONES, ETC. AT THE SAME TIME AN EFFORT IS BEING MADE TO RELIEVE INDUSTRY BY MEASURES SUCH AS THE SUSPENSION OF FAMILY ALLOWANCE CONTRIBUTIONS FOR FEMALE WORKERS (SEE REFTTEL).

UNCLASSIFIED

UNCLASSIFIED

PAGE 04 ROME 11565 121058Z

8. THE UNIONS AND INDUSTRY ARE ONLY PARTIALLY SATISFIED WITH THE LA MALFA PLAN. PREFERRING INSUFFICIENT ACTION TO NO ACTION AT ALL, THEY ARE PREPARED TO COOPERATE WITH GOVERNMENT IN IMPLEMENTING IT. THE PLAN INVOLVES, IN PART, ADMINISTRATIVE ACTION THAT IS, REMOVING THE BUREAUCRATIC OBSTACLES TO THE EXPENDITURE OF BILLIONS OF LIRE WHICH HAVE ALREADY BEEN AUTHORIZED BY PARLIAMENT.

9. COMMENT: THE MOST UNUSUAL ASPECT OF THE LA MALFA PLAN IS THAT IT ENJOYS THE CONSENSUS OF PARLIAMENT, INDUSTRY AND LABOR, ALL THREE OF WHICH WERE CONSULTED. IN THIS SENSE IT IS SUSCEPTIBLE TO RAPID IMPLEMENTATION FOLLOWING THE END OF THE AUGUST RECESS. THE MOST SERIOUS THREATS TO ITS SUCCESS ARE ENDEMIC BUREAUCRATIC LASSITUDE AND THE POSSIBILITY OF A GOVERNMENT CRISIS IN THE FALL. IT SHOULD ALSO BE NOTED THAT

THE LA MALFA PLAN IS NOT REPEAT NOT A PROGRAM FOR ECONOMIC DEVELOPMENT OR FOR RESTRUCTURING THE INTERNAL INCONSISTENCIES IN ITALY'S ECONOMY. IT IS RATHER A SERIES OF EMERGENCY MEASURES FOR SPEEDING UP THE EXPENDITURE OF FUNDS ON PREVIOUSLY PROPOSED PROJECTS, SOME OF WHICH ARE ALREADY IN SOME PHASE OF EXECUTION. THE IMMEDIATE OBJECTIVE IS TO AVOID THE THREAT OF LARGE SCALE UNEMPLOYMENT.VOLPE

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